

# Excel

TECHNOLOGY

EXCEL TECHNOLOGY INTERNATIONAL HOLDINGS LIMITED

(志鴻科技國際控股有限公司)\*

*(Incorporated in Bermuda with limited liability)*

## RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER, 2001

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*This announcement, for which the directors (the “Directors”) of Excel Technology International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

\* For identification purpose only

## Highlights

- Turnover increased by about 11% over the previous year to approximately HK\$173,111,000.
- The Group turned to a loss in operation before amortisation of about HK\$8,982,000.
- Loss attributable to shareholders was HK\$84,776,000.
- Loss per share was 8.42 cents.

## RESULTS

The board of directors (the “Board”) of the Company announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2001 together with the comparative audited figures for the corresponding period in 2000 as follows:

	<i>Note</i>	<b>2001</b> <b>HK\$'000</b>	2000 <i>HK\$'000</i>
Turnover	2	<b>173,111</b>	155,425
Cost of computer hardware and software		<b>(72,058)</b>	(55,285)
		<b>101,053</b>	100,140
Other revenue		<b>9,606</b>	11,815
Other net (loss)/income		<b>(354)</b>	1,804
Staff costs		<b>(84,794)</b>	(63,215)
Depreciation		<b>(6,580)</b>	(2,027)
Other operating expenses		<b>(27,913)</b>	(16,148)
(Loss)/profit from operations before amortisation		<b>(8,982)</b>	32,369
Amortisation of goodwill		<b>(2,362)</b>	—
Amortisation of development costs		<b>(4,299)</b>	(1,356)
(Loss)/profit from operations		<b>(15,643)</b>	31,013
Finance costs	3	<b>(5,949)</b>	(3,158)
Impairment loss on fixed assets	4	<b>(3,123)</b>	—
Impairment loss on goodwill	5	<b>(30,000)</b>	—
Impairment loss on investments	6	<b>(25,462)</b>	—
Loss on convertible note	7	<b>(3,525)</b>	—
Profit on disposal of a subsidiary		—	1,243
Share of profits less losses of associates		<b>(1,814)</b>	(5,838)
(Loss)/profit before taxation		<b>(85,516)</b>	23,260
Taxation	8	<b>(284)</b>	(540)
(Loss)/profit after taxation		<b>(85,800)</b>	22,720
Minority interests		<b>1,024</b>	—
(Loss)/profit attributable to shareholders		<b>(84,776)</b>	<u>22,720</u>

	<i>Note</i>	<b>2001</b> <b><i>HK\$'000</i></b>	2000 <i>HK\$'000</i>
(Loss)/earnings per share			
Basic	9	<b><u>(8.42 cents)</u></b>	<b><u>2.65 cents</u></b>
Diluted	9	<b><u>(8.42 cents)</u></b>	<b><u>2.65 cents</u></b>
(Loss)/profit for the year is attributable as follows:			
The Company and its subsidiaries		<b>(82,809)</b>	28,558
The associates		<b><u>(1,967)</u></b>	<b><u>(5,838)</u></b>
		<b><u>(84,776)</u></b>	<b><u>22,720</u></b>

*Notes:*

### 1. Basis of presentation

The Company was incorporated in Bermuda on 21st January, 2000 with its shares listed on the GEM of the Stock Exchange on 30th June, 2000.

The financial information presented has been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This financial information also complies with the applicable disclosure requirements of the GEM Listing Rules of the Stock Exchange.

All significant intra-group transactions and balances have been eliminated on consolidation.

### 2. Turnover

The principal activities of the Group are the development, sales and implementation of enterprise software.

Turnover represents income from complementary computer hardware and software sales and computer services (including the ASP business) rendered to customers during the year, net of returns and discounts allowed, after eliminating intra-group transactions.

### 3. Finance costs

	<b>2001</b> <b><i>HK\$'000</i></b>	2000 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other borrowings repayable within five years	<b>16</b>	223
Finance costs on convertible notes	<b><u>5,933</u></b>	<b><u>2,935</u></b>
	<b><u>5,949</u></b>	<b><u>3,158</u></b>

#### 4. Impairment loss on fixed assets

As at 31st December, 2001, the Directors considered that there was an impairment in the value of certain computer equipment taking into consideration their recoverable amounts which were based on their value in use. An impairment loss of HK\$3,123,000 (2000: HK\$Nil) was recorded at 31st December, 2001.

#### 5. Impairment loss on goodwill

As at 31st December, 2001, the Directors considered that there was an impairment in the value of goodwill, which arose on the acquisition of i21 Limited (“i21”), having considered the market demands and financial viability of the application service provider business in the foreseeable future. Based on this assessment, the carrying amount of goodwill was written down by HK\$30,000,000. The estimates of recoverable amount were based on the estimated future discounted cashflow of the business of i21.

#### 6. Impairment loss on investments

The Group held equity securities listed in Hong Kong with a carrying value of HK\$2,292,000 after provision for impairment in value of HK\$25,462,000 was made at 31st December, 2001.

#### 7. Loss on convertible note

In December 2001, the Group agreed with a listed company to pursue an early redemption of the convertible note, issued by the listed company, for a consideration of HK\$9,600,000. The early redemption resulted in a loss to the Group on disposal of HK\$3,525,000.

#### 8. Taxation

	<b>The Group</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Provision for Hong Kong Profits Tax for the year	—	650
Under/(over) provision in respect of prior years	<b>71</b>	(110)
	<b>71</b>	540
Overseas taxation	<b>60</b>	—
	<b>131</b>	540
Share of associate's taxation	<b>153</b>	—
	<b>284</b>	540

The provision for Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profits. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong Profits Tax has been made in the financial statements of the Company as the Company incurred taxable losses during the year ended 31st December, 2001.

## 9. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$84,776,000 (2000: profit of HK\$22,720,000) and the weighted average number of 1,007,425,135 shares (2000: 858,557,892 shares).

Diluted (loss)/earnings per share for the years ended 31st December, 2001 and 2000 is the same as the basic (loss)/earnings per share because there was no dilutive effect in existence during the respective years.

## 10. Reserves

Movements in reserves of the Group for the years ended 31st December, 2001 and 2000 are as follows:

	<b>Share premium HK\$'000</b>	<b>Retained reserves HK\$'000</b>	<b>Total HK\$'000</b>
<b>(a) The Group</b>			
At 1st January, 2000	—	1,488	1,488
Reserves arising from the Reorganisation	—	539	539
Premium on shares issued upon conversion of convertible notes	106,038	—	106,038
Capitalisation issue	(84,758)	—	(84,758)
Share premium arising on issue of IPO shares	192,000	—	192,000
Share issue expenses	(27,805)	—	(27,805)
Retained profit for the year	—	22,720	22,720
	<u>185,475</u>	<u>24,747</u>	<u>210,222</u>
At 31st December, 2000	<u>185,475</u>	<u>24,747</u>	<u>210,222</u>
At 1st January, 2001	185,475	24,747	210,222
Share premium arising from:			
(1) Acquisition of a subsidiary	40,359	—	40,359
(2) Acquisition of an associate	1,622	—	1,622
Purchase of own shares	(47,806)	—	(47,806)
Loss for the year	—	(84,776)	(84,776)
	<u>179,650</u>	<u>(60,029)</u>	<u>119,621</u>
At 31st December, 2001	<u>179,650</u>	<u>(60,029)</u>	<u>119,621</u>
<b>(b) The Company</b>			
At 1st January, 2000	—	—	—
Premium on shares issued upon conversion of convertible notes	106,038	—	106,038
Capitalisation issue	(84,758)	—	(84,758)
Share premium arising on issue of IPO shares	192,000	—	192,000
Share issue expenses	(27,805)	—	(27,805)
Profit for the year	—	2,452	2,452
	<u>185,475</u>	<u>2,452</u>	<u>187,927</u>
At 31st December, 2000	<u>185,475</u>	<u>2,452</u>	<u>187,927</u>

	<b>Share premium HK\$'000</b>	<b>Retained reserves HK\$'000</b>	<b>Total HK\$'000</b>
<b>(b) The Company</b>			
At 1st January, 2001	185,475	2,452	187,927
Share premium arising from:			
(1) Acquisition of a subsidiary	40,359	—	40,359
(2) Acquisition of an associate	1,622	—	1,622
Purchase of own shares	(47,806)	—	(47,806)
Loss for the year	—	(52,677)	(52,677)
	<u>          </u>	<u>          </u>	<u>          </u>
At 31st December, 2001	<u>179,650</u>	<u>(50,225)</u>	<u>129,425</u>

At 31st December, 2001, the aggregate amount of reserves available for distribution to shareholders of the Company was HK\$Nil (2000: HK\$2,452,000).

The application of the share premium account is governed by section 42A under the Companies Act 1981 of Bermuda.

Included in the figure for retained reserves of the Group is an amount of HK\$1,967,000 (2000: HK\$5,838,000), being the net loss attributable to the associates.

## 11. Segment reporting

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of the provision of development of computer software, systems integration and maintenance and related services rendered to customers is chosen as the reporting format because this is considered by management to be more relevant to the Group in making operating and financial decisions.

### (a) Geographical segments by the location of customers and by the location of assets

The Group's business can be subdivided into Hong Kong, Mainland China and other markets.

The Group's geographical segments are classified according to the location of the provision of development of computer software, systems integration and maintenance and related services rendered to customers.

### (b) Business segments

The Group comprises the following main business segments:

#### (i) *Enterprise software development and distribution*

The development, sale and implementation of enterprise software and sale of computer hardware and software.

#### (ii) *IT consulting and e-business solution*

The consulting and systems integration services performed to provide technical support to customers.

#### (iii) *Application services provider ("ASP") services*

The services performed in respect of the ASP business.

(c) Geographical segments

	Hong Kong		Mainland China		Other		Inter-segment elimination		Total	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Segment revenue</i>										
Location of assets										
Turnover	<u>169,317</u>	<u>155,425</u>	<u>3,408</u>	<u>—</u>	<u>386</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>173,111</u>	<u>155,425</u>
<b>Segment result</b>	<b>(6,549)</b>	31,601	<b>(6,342)</b>	(588)	<b>(2,752)</b>	—	—	—	<b>(15,643)</b>	31,013
Finance costs	<b>(5,935)</b>	(3,158)	<b>(14)</b>	—	—	—	—	—	<b>(5,949)</b>	(3,158)
Impairment loss on fixed assets	<b>(3,123)</b>	—	—	—	—	—	—	—	<b>(3,123)</b>	—
Impairment loss on goodwill	<b>(30,000)</b>	—	—	—	—	—	—	—	<b>(30,000)</b>	—
Impairment loss on investments	<b>(25,462)</b>	—	—	—	—	—	—	—	<b>(25,462)</b>	—
Loss on convertible note	<b>(3,525)</b>	—	—	—	—	—	—	—	<b>(3,525)</b>	—
Profit on disposal of a subsidiary	—	1,243	—	—	—	—	—	—	—	1,243
Share of profits less losses of associates	<b>(2,474)</b>	(5,838)	<b>660</b>	—	—	—	—	—	<b>(1,814)</b>	(5,838)
(Loss)/profit before taxation	<b>(77,068)</b>	23,848	<b>(5,696)</b>	(588)	<b>(2,752)</b>	—	—	—	<b>(85,516)</b>	23,260
Taxation	<b>(70)</b>	(540)	<b>(213)</b>	—	<b>(1)</b>	—	—	—	<b>(284)</b>	(540)
(Loss)/profit after taxation	<b>(77,138)</b>	23,308	<b>(5,909)</b>	(588)	<b>(2,753)</b>	—	—	—	<b>(85,800)</b>	22,720
Minority interests	<b>(171)</b>	—	<b>1,195</b>	—	—	—	—	—	<b>1,024</b>	—
(Loss)/profit attributable to shareholders	<b>(77,309)</b>	23,308	<b>(4,714)</b>	(588)	<b>(2,753)</b>	—	—	—	<b>(84,776)</b>	22,720
Depreciation and amortisation	<b>(12,836)</b>	(3,383)	<b>(279)</b>	—	<b>(126)</b>	—	—	—	<b>(13,241)</b>	(3,383)
Capital expenditure incurred during year	<b>3,116</b>	8,568	<b>1,959</b>	714	<b>293</b>	201	—	—	<b>5,368</b>	9,483
Segment assets <sup>#</sup>	<b>300,045</b>	389,538	<b>5,478</b>	1,568	<b>2,163</b>	—	—	—	<b>307,686</b>	391,106
Interest in associate	—	4,166	<b>13,669</b>	—	—	—	—	—	<b>13,669</b>	4,166
Total assets	<b>300,045</b>	<b>393,704</b>	<b>19,147</b>	<b>1,568</b>	<b>2,163</b>	—	—	—	<b>321,355</b>	<b>395,272</b>
Segment liabilities <sup>#</sup>	<b>(96,943)</b>	(84,939)	<b>(4,828)</b>	(1,183)	<b>(3,452)</b>	—	<b>3,232</b>	1,072	<b>(101,991)</b>	(85,050)
Total liabilities	<b>(96,943)</b>	<b>(84,939)</b>	<b>(4,828)</b>	<b>(1,183)</b>	<b>(2,452)</b>	—	<b>3,232</b>	1,072	<b>(101,991)</b>	<b>(85,050)</b>
Minority interests	—	—	—	—	—	—	—	—	<b>(1,238)</b>	—
<i>Additional information concerning geographical segments:</i>										
Revenue from external customers by the location of customers	<b>148,096</b>	<b>155,425</b>	<b>24,629</b>	<b>—</b>	<b>386</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>173,111</b>	<b>155,425</b>

# Segment assets and liabilities are before elimination of inter-segment balances.

\* Inter-segment elimination of HK\$3,232,000 represents inter-segment current accounts at 31st December, 2001 (2000: HK\$1,072,000).

## **FINAL DIVIDEND**

The Directors have resolved not to recommend the payment of a final dividend by the Company for the financial year ended 31st December, 2001.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Performance**

Turnover of the Group represents sales of enterprise software products, provision for customization, consulting & systems integration services, complementary computer hardware and software resale and maintenance services and ASP software subscriptions.

Despite the economic downturn in 2001, the Group achieved a growth of 11% in its turnover. Total turnover recorded for 2001 was HK\$173,111,000 (2000: HK\$155,425,000). This growth was mainly attributable to the Group's expansion strategy to Mainland China and SE Asia.

Sales in enterprise software products and provision of related services decreased when compared with that in the last year. Prolonged bank mergers directly affected sales and delayed project implementation and buying decisions. The biggest impact was in the fourth quarter with further economy deterioration and the September-11 incident. In our industry, the fourth quarter was traditionally the best season for new purchase.

Consulting & systems integration services, complementary computer hardware and software resale and maintenance services all see increase in sales when compared with that of the last year.

Revenue from ASP subscription was included in the Group's turnover starting from end of July 2001 when i21 became a subsidiary of the Group. The ASP business is growing steadily and had already paved its expansion into SE Asia in 2002.

Gross profit margin reduced to 58.4% (2000: 64.4%) as a result of increase of hardware and software resale and decrease in revenue from enterprise software products.

The total operating expenses of the Group increased by 46.6% as a result of consolidating the operating expenses of i21, the subsidiaries in Singapore and Mainland China. The operations in Hong Kong has been maintained at a healthy level with further cost reduction measures to be implemented.

The Group began to amortize goodwill arisen from acquisition of a majority shareholding in i21 and 21.5% interests in Camelot Information Systems Inc. ("Camelot"). After the amortisation, the Group recorded an operating loss of HK\$15,643,000. (2000: Operating profit \$31,013,000.).

Although the subsidiaries in Mainland China and Singapore incurred losses, the management is confident that they will have positive contribution to both the turnover and net profit of the Group in the coming years.



The Group had provided a total of HK\$8,868,000 finance cost to prepare for the redemption of the convertible note issued to Alps Mountain Agent Limited (“Alps”), due to mature on 31st May, 2002. The total accrued liability under the convertible note as at 31st December, 2001 amounted to HK\$56,088,000. The management considers that the Group has sufficient financial resources to meet redemption demand, if any.

At 31st December, 2001, the Group made provisions on the:

- (1) Impairment loss on fixed assets, amounted to HK\$3,123,000;
- (2) Impairment loss on goodwill related to i21 Limited, amounted to HK\$30,000,000; and
- (3) Impairment loss on the ehealthcareAsia (“EHA”) shares, amounted to HK\$25,462,000

The management believes that these provisions were one-off and non-recurring.

The Group had also incurred a loss of HK\$3,525,000 on the early redemption of the convertible note issued by EHA. The redemption was completed in December 2001.

### **Liquidity and Financial Resources**

The Group continued to be in a strong financial position with HK\$218,126,000 shareholders’ fund as at 31st December, 2001 (2000: HK\$310,222,000). As at 31st December, 2001, the Group had a total of HK\$65,937,000 (2000: HK\$292,642,000) cash and cash equivalents, HK\$63,601,000 (2000: HK\$Nil) in a global liquidity fund which invests in a diversified portfolio of short term market securities with investment grade credit ratings and a time deposit of HK\$8,100,000 (2000: HK\$Nil) were pledged to bank as guarantee to certain banking facilities of the Group.

At 31st December, 2001, the Group had banking facilities of HK\$7,520,000 which was secured by deposits with banks at 31st December, 2001. Such banking facilities were utilized to the extent of HK\$940,000 as at 31st December, 2001. The bank loans of HK\$940,000 are repayable within one year on demand.

The Group’s gearing ratio, representing total bank borrowings divided by shareholders’ funds, was 0.43% as at 31st December, 2001.

The bank loans of HK\$13,000 at 31st December, 2000 were unsecured and repaid during the year ended 31st December, 2001.

The accrued liability under the convertible notes issued to Alps amounted to HK\$56,088,000. The principal amount of the convertible note is HK\$47,220,000 and the accrued finance cost amounts to HK\$8,868,000. The finance cost is equivalent to a yield-to-maturity of approximately 10% per annum to the noteholder.

As at 31st December, 2001, the Group has an outstanding capital commitment to a private equity investment fund of US\$500,000 and a further investment in the amount of RMB4,500,000 (HK\$4,230,118) into a subsidiary.

## Capital Structure

The Group issued 67,264,000 and 3,120,000 new shares respectively to iBusiness Corporation Limited for the acquisition of 42.6% in i21 and to two majority shareholders of Camelot as partial consideration on the acquisition of 21.51% in Camelot.

During the year, the Group repurchased in the market a total of 85,334,000 shares at an aggregate price of HK\$56,326,119. The average purchase price was HK\$0.66 per share. The repurchased shares were cancelled and the issued share capital of the Company was correspondingly reduced. The repurchase were made with a view to enhancing the net asset and earnings per share of the Company.

After the new issue of shares and repurchase, the net effect was a reduction of 14,950,000 issued shares. As at 31st December, 2001, the Group's issued shares were 985,050,000 shares (2000: 1,000,000,000 shares).

### *New Products/Services*

In 2001, the Group commenced the development of an integrated stock trading system for Mainland China centralized stock trading. The Group is in discussion with a few major securities firms on the implementation of the trading system. The MBS product development is progressing well and marketing will commence in 2002. A new privilege banking software product called *Wealth Management System* is in its final phase of development and marketing of the same had already been carried out in Hong Kong, SE Asia and, later, in Mainland China.

The management had taken steps to consolidate the ASP and enterprise software products aiming at creating greater synergies and streamlining support between the two. To this end, the Group had set up a specialist company called *HR21 Holdings Limited* with a view to combining the resources and businesses of its HRMS (enterprise software product) and iHR21 (ASP service). The new vehicle will focus on providing human resources management services, including software products, ASP services, consulting, training and placement, to SME clients.

### *Significant Investments/Acquisition and Performances*

The two joint ventures in Mainland China made inroad to sell to major Chinese banks and brokerages with healthy sales pipeline. The Beijing joint venture will further expand its team to meet with stronger sales growth. The Shenzhen joint venture is teaming up with our Shekou software center to develop local products and outsourcing business.

The Group and EHA entered into a solution agreement during the year by which the Group would grant a worldwide license of iPolicy21 Group Medical Software together with amortisation work to EHA. As a result of this transaction, the Group received a total of 115,250,000 shares in EHA. In addition, upon the acquisition of i21, the 28,000,000 EHA shares carried by i21 increased the Group's total holding of EHA shares to 143,250,000 shares (this is later consolidated by 10:1). The 28,000,000 EHA shares held by i21 was resulted from the settlement of the consideration on disposal of iClaims21 Limited. Since the share price of EHA dropped substantially subsequent to receipt of those shares, the Group had made a provision on impairment loss on the EHA shares for HK\$25,462,000.

During the year, i21 received a convertible note of HK\$40,000,000. The convertible note was carried at a fair value of HK\$35,000,000. In July, part of the convertible note was transferred to a wholly-owned subsidiary of the Group at the fair value of HK\$13,125,000 and the remaining was transferred to the another shareholder of i21. EHA and the Group agreed to an early redemption of the convertible note by payment of HK\$9,600,000, resulted in a loss on early redemption of HK\$3,525,000. Completion of early redemption took place in December 2001.

In July 2001, the Group acquired 42.6% in i21 and became the major shareholder of i21.

During the year, the Group acquired 21.5% in an associate, Camelot, in a consideration of HK\$21,668,000, which was satisfied by the issuance of a total of 3,120,000 shares of HK\$0.10 each of the Company together with a cash payment of HK\$19,734,000. Camelot is a technology services company targeting mainly foreign enterprises in Mainland China. The Group's share of profits amounted to HK\$660,000 during the year ended 31st December, 2001. Management is optimistic that Camelot can sustain healthy growth and profitability for the coming years.

As at 31st December, 2001, the Group also held a portfolio of current investments, comprising of HK\$63,601,000 of funds placed in a global liquidity fund and HK\$2,924,000 of trading securities listed in Hong Kong.

### *Segmental Performances*

Segment information is presented in respect of the Group's geographical segments. Information relating to geographical segments based on the location of the provision of development of computer software, systems integration and maintenance and related services rendered to customers is chosen as the reporting format because this is considered by the management to be more relevant to the Group in making operating and financial decisions.

Hong Kong segment recorded a turnover of HK\$169,317,000 for the year ended 31st December, 2001. Singapore recorded a turnover of HK\$386,000.

The Mainland China operations (included Shekou software center and the two equity joint ventures) recorded a total turnover of HK\$3,408,000.

### *Employees*

The Group employed a total of 367 staffs as at 31st December, 2001, of which 257, 7 and 103 are located in Hong Kong, Singapore and Mainland China respectively.

The Group replaced the Chinese New Year Bonus for Hong Kong staff with a performance based incentive compensation scheme.

All the employees in Hong Kong are entitled to participate in the Stock Option Scheme. As at 31st December, 2001, share options with 78,038,500 shares to be issued upon the exercise of the share option had been granted pursuant to this scheme. None had been exercised during the year.

The Group provided trainings to employees on technical skills, sales and presentation skills, languages (English and Mandarin) and run management development workshops for all managers and directors. In 2002, training will be given on soft skills such as supervisory and interpersonal skills.

## *Exposure to Foreign Exchange Risk*

The Group received renminbi income from sales in Mainland China. The renminbi income was used to meet working capital commitments in Mainland China.

## *Prospects in 2002*

The Director believes that 2002 will be a challenging year. With the solid fundamental already paved in geographical expansion and rationalization of the ASP business, the Group is well positioned to capitalize on the benefits of a diversified portfolio of markets, operations and business mix.

The economy in Hong Kong is recovering slowly. Banks will continue their merger and consolidation through to the first half of the year but are starting to reactivate systems purchasing activities. We believe that the market conditions will be improved in the second half of the year.

The management targeted to turn the Group to profitability by implementing further cost containment measures and aggressive selling strategy. Management expects the two Mainland China joint ventures and the Singapore operation to achieve substantial sales growth and profitability in 2002.

The Group continues to look at merger and acquisition targets to expand its market share in the region with an aim to become a dominant regional player in the IT market.

## **Comparison of business objectives with actual business progress**

### **Key Business Initiatives**

### **Actual business progress up to the end of December 2001**

Further developing the ASP business by including software developed by third party software vendors as part of the services offered

The Group had concentrated its efforts in developing client base and markets for the two existing ASP services (iStock21 & iHR21). As such, new ASP service using third party software was postponed to the second half of 2002.

Marketing the MBS and Insurance21 aggressively

The development of the MBS product is expected to complete around mid-2002. Intensive pre-marketing activities will start in the first quarter of 2002 with the key focus in Singapore and Hong Kong.

Marketing of Insurance21 (renamed “@urance”) was started in the fourth quarter of 2001. A potential insurance client in Hong Kong had been identified, and we are in the process of contract negotiation with this client.

Continuing the Group’s geographical expansion, including through acquisitions

Mainland China subsidiaries in both Beijing and Shenzhen had increased their staff force to promote and market the Group’s enterprise software products, solutions and services. The sales and marketing activities in Singapore had significantly picked up in the last quarter of 2001.

Acquisition activities were restricted mainly to company visits for potential targets. We are still actively identifying target companies for acquisition and cooperation.

## Sales and Marketing

Recruiting additional local distributors and/or resellers in Mainland China and other Asian countries

Mainland China was leveraging on local business partners in exploring both channels and customers.

## Product and Service Development

Completing the third phase development of Insurance21

The development of Insurance21 (renamed “@urance”) was completed as scheduled.

Completing the second phase development (covering swaps, equities, futures etc.) of MBS

90% of the infrastructure components were developed and tested. Phase II development is in its full swing and expect to be completed in second half of 2002.

## Geographical Expansion

Establishing the third Mainland China office

Establishment of the third office was postponed to the first half of 2002 and the priority was given to Shanghai.

Establishing the third Southeast Asia office in the Philippines or Thailand

The Group intends to leverage on local business partners to make a presence in the other SE Asia countries rather than building its own offices. We have signed a mutual reseller agreement with a Singapore technology company in November 2001, under which we shall assist each other in reselling its respective suite of enterprise software products in the domestic markets.

## Use of Proceeds

The net proceeds from the public listing was about HK\$180,000,000. During the period from 30th June, 2000 (date of listing) to 31st December, 2001, the Group has incurred the following amounts to achieve the business objectives as set out in the prospectus:

	<b>As stated in the Prospectus</b> <i>(HK\$ million)</i>	<b>Actual</b> <i>(HK\$ million)</i>
For the development of the ASP business	40	29
For the research & development of new enterprise software	20	17
For the geographical expansion of the Group	20	15
For setting up the e-Center	10	1
For marketing and promotional activities	10	3
For acquisitions of and investments in companies and businesses which fit into the Group’s business strategy	50	27
Total	<u>150</u>	<u>92</u>

The balance of the proceed of HK\$30,000,000 were used for general working capital.

Use of proceeds is almost same as the estimation made in the Prospectus dated 20th June, 2000 except the setting up of e-Centre. Progress on the further development of this business initiatives have slowed down as the Group is still identifying a suitable Promotor which is the operator to manage and maintain the e-Centre and provide consultancy services to its participants in relation to store-front management. Not until such Promotor is identified, the Group will withhold expenses on this business initiatives.

#### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year ended 31st December, 2001, the Company repurchased on the Stock Exchange a total of 85,334,000 shares of HK\$0.10 each in the share capital of the Company at an aggregate price of HK\$56,326,119, details of which are as follows:

<b>Month of Repurchase</b>	<b>No. of Shares Repurchased</b>	<b>Price per Share</b>		<b>Aggregate Price Paid</b>
		<b>Highest</b>	<b>Lowest</b>	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
September 2001	70,452,000	0.71	0.60	46,537,514
October 2001	12,888,000	0.69	0.67	8,746,105
November 2001	1,994,000	0.58	0.485	1,042,500
	<u>85,334,000</u>			<u>56,326,119</u>

The Directors considered that the above repurchases were made with a view to enhancing the net asset and earnings per share of the Company. These shares were cancelled upon repurchase and the issued share capital of the Company was correspondingly reduced.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities as at the year ended 31st December, 2001.

#### **BOARD PRACTICES AND PROCEDURES**

During the year ended 31st December, 2001, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board  
**Zee Chan Mei Chu, Peggy**  
*Chairman*

Hong Kong, 18th March, 2002

*This announcement will remain on the GEM website at "www.hkgem.com" on the "Latest Company Announcements" page for seven days from the date of its posting.*